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Knocked-down Agriculture

After De-industrialization; Another Destructive Influence of Neo-liberalism

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Abstract

The author shows that although some short term factors have contributed to the recent food crisis in developing countries, the crisis is rooted mainly in agricultural support policies of developed countries, liberalization of the agricultural sector by developing countries and contradictions in the design and implementation of GATT/WTO rules. Agricultural liberalization has been imposed on lower-income countries by International Financial Institutions (IFIs) and through bilateral trade agreements between developed and developing countries. The Neo-liberal economic philosophies, as well as unequal power relations between developing and developed countries, have been main contributory factors. There is a danger that further pressure on developing countries during the Doha Round may result in an outcome undermining development of the agricultural sector of developing countries further. The result would be intensification of dependence of lower-income countries on food imports, knocked-down agriculture and economic and political dependence on developed countries. A radical change in the trading system, practices of IFIs and policies of developed countries is required. Developing countries have little power to bring about such changes, but they can try to change their own policies. To do so it is not easy to resist pressure from developed countries and IFIs, but it is absolutely necessary if they do not wish to sacrifice their long-term development and well being of their population.

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Introduction

Since the middle of 2007, the world economy has faced three crises: financial, food and fuel. Seabrook (2008), a UK journalist, mentions correctly that food and financial crisis are sometimes attributed to wrong causes: food crisis to overpopulation in developing countries, or increased demand in China and India; financial crisis to sub-prime borrowers. Similarly, fuel crisis is attributed to growth of demand in China and India.

The food crisis, in particular, is a wake-up call for developing countries, especially low-income ones. It is a reminder of the importance of agriculture in the economy of low-income countries which rely on this sector for their main source of income and export earnings. Further, foods constitute the bulk of items in the consumption basket of the masses of population of these countries. Hence, it has direct and immediate effects on the life of the poor. The riot in nearly fifty countries, objecting to high food prices, in recent months is a telling evidence of the seriousness of the issue. Therefore, in this brief we will concentrate on the food crisis.

Many short-term and long-term (structural) factors, originating from both demand and supply, may have contributed to the recent food crisis. Often, little attention is, however, paid by the policy makers in developed countries to the role of their own agricultural policies and liberalization policies imposed on developing countries on the supply of food products in these countries. As a result, the recent food Summit, held in early June 2008 in Rome, came up with some palliative measures, under the influence of developed countries, rather than curative ones. The delegation of Argentina together with delegates from a number of other Latin American countries correctly stated that “the

Declaration [of the Summit] is based on wrong diagnosis of the problem, thus the solution will not really address the root cause of the problem” (see SUNS, 7 June 2008).

In our view two main factors have been the root causes of the food crises. One is the influence of the dominant market-based ideology of neo-liberals: These ideologies have been dictated by developed countries to developing countries through international financial institutions (IFIs), WTO, and their bilateral economic agreements of developed countries with these countries. The other one is agricultural policies of developed countries in their own countries. Contrary to what they preached to developing countries, the governments of developed countries have been heavily supporting their food crops. Before proceeding further let us say a few words about the extent of the rise in food prices recently.

Recent increase in food prices

The UNCTAD price index of main internationally traded food products increased, on average, by 84 per cent between May 2007 and end of April 2008; as compared with the 52 per cent increase between 2000 and end of May 2007. Staple items, such as wheat and rice, show sharper price increases than indicated by the index of average food prices. For example, during May 2007-April 2008 the price of wheat, rice and soybean and sugar increased by 91%, 216%, 101%, and 33%, respectively. By contrast, the price of tropical beverages, which are not produced by developed countries and are not subject to protection in these countries, increased only by 28 per cent over the same period (UNCTAD, *Commodity Price Bulletin* on line).

Changes in the supply of food products

Drought during 2007-8 has been one cause of recent food shortages. Hence to exclude this factor let us consider changes in the supply of food in relation to GDP growth in developing countries during 2000-2006. During this period, GDP growth accelerated, in relation to 1990-2000 period, noticeably in various groups of developing countries, with the exception of Latin America (see table 1). Yet, the pace of food production decelerated, almost in all groups of developing countries, particularly in Sub-Saharan and other low-income countries¹. For both groups, particularly Sub-Saharan countries, in fact, the growth in food production fell short of population growth considerably (see table 1). The African continent as a whole has turned into significant net importer of food products. In 1970, ratio of (X-M)/X of food (including tropical products) for Africa was over 51% for its total trade in food and 58% in its food trade with developed countries. The corresponding ratios were -50% and -86% in 2005 (table 2). As exports include tropical beverages, the degree of import dependence on imports must be higher for staple food products.

Apicultural policies; impact on production

No doubts many factors of short-term nature may have also contributed to the food crisis. However, agricultural policies of developed countries as well as developing countries have been the most important factors. Under the pressure,

¹ The growth rates are calculated for 1999/2001-2004/06 to avoid the effects of annual fluctuations.

Table 1: Various indicators of growth of agricultural products and GDP (1990-2006)

Percentages

Country groups	Agriculture						Population 1990-06	GDP			GDP per capita 90-2006
	Total			Food				90- 2006	90- 2000	2000- 06	
	1990 -2000	2000 -2006	1990- 2006	1990/2- 2004/06	1990/2- 1999/2001	1999/2001- 2004/6					
Low-income	3.3	3.1	3.23	2.34	3.08	1.01	2	5.38	4.7	6.5	3.38
Middle-income	2	3.7	2.64	2.35	2.53	2.01	1.1	4.48	3.8	5.6	?
Lower middle income	2.7	4	3.18	3.16	2.7	2.35	1.1	6.73	6.2	7.6	5.62
Upper middle income	0.8	3.3	1.74	0.17	0.2	0.82	0.9	2.73	2.2	3.9	1.83
Lowe and middle income	2.4	3.6	2.85	2.35	2.69	1.72	1.5	4.58	3.9	5.7	3.08
East Asia & pacific	3.4	3.9	3.59	4.05	4.99	2.36	1.1	8.54	8.5	8.6	7.44
Europe and central Asia	-1.8	3.6	0.23	-1.28	-2.6	1.19	0.1	1.61	-0.9	5.8	1.51
Latin America & Caribbean	2.1	3.2	2.52	2.89	3.34	2	1.5	3.16	3.2	3.1	1.66
Middle East and North Africa	2.9	4.7	3.58	2.86	3.14	2.38	2	3.96	3.8	4.2	1.95
South Asia	3.3	2.7	1.22	2.29	3.17	0.69	1.8	6.06	5.5	7.0	4.26
Sub-Saharan Africa	3.3	3.5	3.4	2.19	2.86	1	2.6	3.33	2.5	4.7	0.73
China	4.1	4.2	4.14	4.92	5.8	3.33	0.9	10.3	10.6	9.8	9.4
India	3.2	2.7	3.01	2.32	3.11	0.92	1.7	6.46	5.9	7.4	4.76
High income countries	1.4	0.5	1.06	0.77	1.22	0.9	0.7	2.55	2.7	2.3	1.85
Euro area	1.6	-0.4	0.85	0.31	0.62	0.36	0.4	1.88	2.1	1.5	1.48
USA	3.5	2.6	3.16	1.7	1.83	1.46	1.1	3.2	3.5	2.6	2.1

Sources: World Bank, *World Development Indicators*, 2007 (World Bank, Washington D.C)

Table 2: Trade of Africa in food products (1970-2005)

	1970	1982	1995	2005
Total Exports (\$m.)	3498	8009	14273	21409
Exports to developed countries (\$m)	2815	5510	10362	13186
Share of developed countries (%)	80.5	68.8	72.6	61.6
Total imports (\$m.)	1692	12209	18401	32158
Imports from developed countries	1162	9228	11942	15211
Share of developed countries (%)	68,4	71.5	64.9	47.3
X-M : total	1806	-4200	-4128	-10749
X-M: trade with developed countries	1653	-318	-9097	-11346
(X-M)/X: total	51.6	-52.4	-28.9	-50.2
(X-M)/X: trade with developed countries	58	-5.8	-87.8	-86.1

Sources: Based on UNCTAD; *Handbook of Statistics*, various issues

Low-income countries have had to liberalize production and trade in agricultural products, remove, or reduce, subsidies paid on input and /output of farm products and dismantle their marketing boards. These changes have exposed their food production to unfair competitive pressure in internal and international markets. International prices in these markets have been affected by agricultural subsidies and support measures provided to food production and exports in developed countries. EU conducts market price intervention in 72% of its agricultural products. The US fixes minimum price for many agricultural products and intervene in the market when market prices fall below minimum price (Jhamtani, 2008). Developed countries spent nearly \$400 billions a year on support for their agricultural products, which is equivalent of over \$1760 per head of their rural population. And it is 55 times higher than total exports of agricultural products from the whole of the African continent.

The agricultural support programme of the US together with CAP of the EU has resulted in surplus in main food items in excess of their domestic consumption. Hence,

they had to create a food export market for themselves in developing countries by subsidizing their exports. As a result, many developing countries became dependent on imports of subsidized food items sacrificing their food security.

A few examples of changes in food supply at the country level

Let us refer to a few examples of such negative influences of agricultural policies on food production in developing countries in Africa, Asia and Latin America. Ghana was self-sufficient in rice in 1970s. It started liberalizing its agricultural sector in early 1980s. By 2002, imports constituted 64% of domestic supply of rice increasing to 79 % in 2003 (Khor, 2008 and Bassey, 2008). The domestic rice output in the Northern region alone was 56000 tons in 1978-80; it fell to 27000 for the whole country in 1983. In 2003 import of American rice, the export price of which was 34% below its production cost, mounted to 111000 tons (Khor, Ibid). Total imports of rice increased to 250,000 tons in 1998 and 415150 tons in 2003 (Bassey, 2008).

The increase in dependence of Ghana on imports is not confined to such staple items as food; other food items have been affected too. One example is tomato. EU's processed tomato enjoyed \$ 298 million direct aid, let alone its indirect support (Ibid: 2-3). The privatized and liberalized tomato production of the country has faced imports of subsidized EU tomato paste since around mid 1990s. Its imports increased from 3200 tonnes in 1994 to 24077 tonnes in 2002.

EU's Chicken exports to Ghana, and other West African countries, enjoyed Euro 254 subsidies per ton and affected domestic supply in these countries. In the case of Ghana, imports made up 89 per cent of domestic supply of poultry in 2001, as compared with 5% in 1992. In Cameroon, reduction of import tariffs to 25 per cent led to imports of

poultry by about six folds. In Senegal, 70% of local production of poultry was wiped out (Bassey, 2008). In Cote d'ivoire, domestic production of poultry dropped by 23 per cent between 2001 and 2003.

In Mozambique, local production of Vegetable oils dropped from 21000 tonnes in 1981 to 3500 tonnes in 2002 (Ibid).

By contrast, when an African country ignored advice of the World Bank and IMF to liberalize agriculture, it did not face shortages. One example is Malawi (Ghosh, 2008).

In Asia, the example of Indonesian rice and soybean and Chinese soybean are interesting. Indonesia was almost sufficient in rice until late 1990s. Beginning in 1967, the Government supported production of rice and stabilized its price through its trading operations, until the financial crisis of 1997. In this year, under the pressure from IMF, the Government began liberalization of rice imports and reduction of its intervention in the domestic market. In 1997, the price of imported rice was below the fixed purchase price paid by the Government. By 2000, the rice market was liberalized almost completely, and the private sector distributed 90% of the national need supplied mainly by imported rice. The domination of the private sector also contributed to speculation in the domestic market for rice (Jhamtani, 2008).

The liberalization of the Soybean in Indonesia has also resulted in the reduction in the area under cultivation of this product from nearly 1.7 million hectares in 1992 to almost 457 thousands hectares in 2007. The price of subsidized imported US soybean was 22 per cent lower than its cost of domestic production in Indonesia (ibid3-4).

In the case of China also imports of Soybean, mainly from subsidized US products, has been responsible for reduction in domestic production. The country was an

exporter of soybean up to 1990s and was self-sufficient until 2000 before it entered the WTO. The entry into this organization was accompanied by the reduction of the import duty on soybean to 3 per cent. In 2006, the price of imported soybean was below domestic cost of production in the northeast province of Heilongjiang even if labour cost was not included in the cost of production (ibid:3). As a result, imports of soybean have shot up. In 2007 imported soybean accounted for more than two-thirds of domestic consumption (Jianjun Wen (2008). Currently, China's imports accounts for 40 per cent of world production of Soya beans (Ghosh 2008).

Ghosh (2008) and Jianjun Wen (2008) have shown that except for Soya bean, China has not been responsible for the increase in world demand for main food products as the domestic supply satisfies the increased demand of main staple food items (Jiajun Wen, 2008). In the case of grain, China in fact produced a surplus in 2007 (Jiajun Wen; ibid: 2). It is also interesting to note that that the difference between the performance of staple food items and Soybean is basically due to the trade policies of the Chinese Government. The Government liberalized trade in Soybean drastically, while continued providing support to the production of main staple food items.

In Latin America, the examples of Haiti, Mexico and Colombia are telling. Haiti was self-sufficient in rice till 1980s. Imports started to exceed domestic production by the 1990s due to trade liberalization imposed by the IMF; the import duty on rice was decreased from 35% to 3%. As domestic production has declined drastically, currently the country imports 82% of its total consumption of rice (Carlsen: 2008:2).

In the case of Mexico, the fate of corn, *inter alia*, provides another example of the negative impact of government policies on production. But it is not the only one. NAFTA

has eliminated government controls on imports and marketing of corn. The domestic market is dominated by a few TNCs. Local producers are not only subject to low import prices, but also suffer from uncertainty about prices. Instead of paying domestic producers decent prices, TNCs threaten to undercut them by imports. Hence, while the Government pays a huge amount of subsidy and consumers pay for high prices for their purchase of the product, production of corn is discouraged. In one state (Sinaloa), the Government paid nearly 37 million pesos for marketing to Cargil and Minsa (two large TNCs) in white corn harvest of 2005-6 (Carlsen).

A number of other staple food items, e.g. wheat, rice, and oilseeds and cattle rearing have had the same fate. Although exports of some agricultural products (tomatoes, peppers, fruits and vegetables) have increased rapidly, the country has become dependent on imports of staple food items. In the process, small farmers (which account for 85% of Mexico's farmers), have been hit hard by import competition. As a result, the outflow of farmers, mainly small ones, to the USA is estimated to have been about 300,000 a year during 2000-05. It is also estimated that between 1992 and 2002 the number of agricultural holders fell by 75 per cent from 2.3 million to 575,000 (Mohanty).

In Colombia, the concessional wheat imports from the USA increased by 10 times from 40,000 tonnes in early 1950s to almost 400,000 in 1971. During this period domestic production of wheat declined by about two-thirds. A number of other products also went out of production (Friedman, 2008).

Contradictions in trade rules

There are a number of contradictions in the neo-liberal economic philosophy, reflected on the design and implementation of international trade rules (GATT/WTO), on the conditionalities imposed on developing countries by IFIs and on the policies and practices of developed countries. These contradictions are related to the role of market as well as government policies². Regarding the role of the market, while neo-liberals recommend the absence of government interference in the market and in the flow of international trade, they disregard the increasing monopoly/oligopoly power of TNCs in international trade and production in general, including international trade and production of agricultural products.

Similarly, the preamble to GATT (1947) refers to the objective of trade liberalization. Yet the GATT/WTO rules are silent about the increasing market power of TNCs. Similarly while the World Bank and IMF have published volumes of studies on trade liberalization and competition policies and put pressures on developing countries to liberalize trade, they hardly discuss the inimical power of TNCs in the market. Five hundreds TNCs accounted for 70% of international trade in general. And a handful of companies dominate market for main food products. They include e.g, Cargil, Mona Santo, Minsa-Aranica, International Agroinsa, maseca-Archer Daniel Midland. If anything, the WTO rules facilitate the operation of the TNCs through the agreements on TRIPs, TRIMS and services (Wade, 2005).

Speculative activities of TNCs

Developing countries are advised by neo-liberals, and are put under pressure by IFIs, to liberalize their trade in agriculture, as well manufacturing products, uniformly. Yet the

² See Shafaeddin (2005) for details.

“market forces” are allowed to operate selectively and marginally. TNCs not only dominate production, trade and processing of food products, but they also engage freely in speculative activities in international as well as domestic markets of developing countries. In the international market, the crisis in the financial and housing market has motivated them to intensify their speculative activities in the commodity market, including petroleum, gold and food products (Ghosh: 6; Crow:2 and Seabrook:2).

There are numerous examples of domination and speculative activities of TNCs in the domestic markets of developing countries. In China, as the government withheld intervention in the market for soybeans, 4 TNCs controlled about 85 per cent of the market and they engaged in speculative activities which resulted in the surge in prices. For example, in 2005 the price of soybean increased by 60 per cent within two months (Jiajun Wen: 3). In Mexico speculation and hoarding by 4 TNCs which dominate the national corn market, resulted in a sharp increase in domestic price of corn in 2006 reaching over 100 per cent of their purchase price of domestic corn. The price increase far exceeded increases in the international price of corn despite the fact that enough stock of corn was available in the domestic market (Carlsen, 2008:3). By their dual operation in the corn market the Maseca and other TNCs have got control of small mills and tortilla producers. Hence, they increased the price of corn sold to mills and sold corn flour to tortilla producers at lower prices. By increasing the supply of processed tortilla “below the cost of production of traditionally made tortillas”, they undercut small processors ((Carlson, 2008: op.cit.).

The design of GATT/WTO rules suffer from other contradictions as well. While the philosophy behind GATT/WTO rules is specialization based on the principle of static

comparative advantage, agricultural sector (as well as main labour intensive manufactured goods) has been excluded from GATT right from the beginning. Developed countries, justify support of their agricultural sector for social (income support for farmers) and strategic (food security) reasons. It is not clear why social considerations are relevant to farmers with income per head of \$1.5 million, but not to farmers of low-income countries with income of \$1 a day (per capita income of 366). According to a new bill passed in the US congress a couple with annual farm income of \$1.5 million also will receive subsidies (see below). Yet, they preach countries whose farmers live on \$1 a day, to liberalize their agriculture. Similarly, it is not clear why food security is not to be important for poor countries.

Even at the time the liberalization of the agricultural sector was under negotiation in WTO, and at the time the US delegation advocated further liberalization of the agricultural sector and preached “all countries to allow free flow of food and safe technologies”! the Food Summit in Rome the US congress passed the 2008 Farm Bill, which became law, increasing “trade distorting support” on 17 out of 25 agricultural products. The new Law would cost the government \$289 billion over a period of five years, out of which about \$10 billion are hidden subsidies. Although the approved bill contains subsidies which are partly regarded non-distorting (Green Box subsidies), they have, in fact, trade distorting effects (SUNS, 19 May, 2008). Further, in defiance to the ruling by WTO’s Dispute Settlement Body (DSB), the bill includes, *inter alia*, a new cotton incentive programme similar to the previous scheme which was regarded illegal by DSB. In other words, the US Government does not intend to comply with the ruling of

DSB (Ibid and SUNS, 5 June, 2008). The bill also provides subsidies to a couple with farm income of up to \$1.5 million as mentioned before.

The US Government advocates free flow of safe technology in food production (read Genetically Modified Seeds-GMOs). Let us assume that GMOs are safe. Contradicting such a position, it allows control of GMOs by its TNCs (most of TNCs involved in GMOs are from the USA). GMOs are patent protected through TRIPs. Protection of new technology is regarded justified by the US delegation in his speech in the ECOSA meeting of June 2007. These contradictory words and deeds are not unusual by the US authorities.

EU aims at self-sufficiency in main staple food items despite high cost of production in the member countries. Yet the EU authorities put pressure on poor African, Caribbean and Pacific States (ACP), to liberalize their agriculture making them subject to cheap subsidized imported food from EU countries. They are put under pressure to sign EPA, (Economic Partnership [sic] Agreement) providing concessions on reciprocal basis on the ground that farmers in ACP countries should play on “a leveled field”. Yet, the field is not leveled by any means and the players are not of equal skill and strength. Through EPA they try to impose conditions on ACP countries which are more stringent than those proposed at WTO during the Doha round negotiations on agriculture (Oxfam, 2008: table 1). Oxfam correctly concludes that “the deal currently on the table will strip ACP countries of important policy tools they need to develop.” (Ibid: 1).

Further, Government of developed countries and their importing companies apply stringent SPS (sanitary and phytosanitary) measures to food imports from developing countries. Yet they export contaminated genetically modified food, through food aid or

otherwise, to developing countries which do not have the capacity for quality control. Incidences of exports of such products have been noticed in Colombia, Bolivia, Ecuador, Angola, Malawi, Zambia, Lesotho, Mozambique, Swaziland, Nigeria, Sudan and Sierra Leon. In some cases African developing countries (e.g. Sudan and Angola), have been pushed to accept genetically modified food aid against their will (Bassey, 2008). Genetically modified foods are scientifically proved not only unsafe and unhealthy, but also uneconomic. In the USA there have been judiciary rulings against GMOs as they were regarded unsafe in a number of cases (HO, 2008 and 2007).

The story does not end here. Even when developing countries develop the capacity to comply with stringent SPS measures, developed countries raise the issue of “carbon-mile” under the pretext of environmental protection. For example, the EU has been considering restriction of imports of vegetables and fruits from Africa, transported through air-cargo, to reduce air-pollution despite the fact that local production of these products out of season is more polluting.

The dilemma of policy proposals

It is not surprising that a report of “International Assessment of Agricultural Knowledge, Science and Technology for Development”, has concluded that: “...excessive and rapid trade liberalization can have negative consequences for food security, poverty alleviation and the environment”. Further, it is added that “market forces alone cannot deliver food security to the poor” (Ching, 2008:2). This is an authoritative report sponsored by various UN organizations and to which 400 eminent authors have contributed. It has drawn on the “evidence and assessment of thousands of experts worldwide”. (Ching, 2008:1). But it is surprising that despite inputs by such a large number of experts, a few

developed countries have not as yet approved the report. It is very likely that the USA Government will not sign to it at all as the US delegate claims that the report is “unbalanced” objecting to its conclusions on the role of market and, in particular, negative impacts of pre-mature trade liberalization in developing countries(Ibid:2).

Mr. Zoelic, the World Bank President, warns that the food crisis could push 100 million people into deeper poverty. He, however, neither does admit the responsibility of the Bank in contributing to the problem, nor he refers to the lessons the bank can learn from the crisis for its Structural Adjustment programmes. In fact, despite the wake-up call of the food crisis, the policy proposals preached by neo-liberals and IFIs are for more liberalization of trade and agricultural production in developing countries. Sp are and government of developed countries while they continue heavy protection of their own agricultural sector.

Concluding remarks

We have argued in this brief that the food crisis in developing countries is rooted in the agricultural policies of developed countries as well as agricultural liberalization policies imposed on developing countries during the last quarter of century. The contribution of structural factors to food crisis is such that high prices of food will continue in the future unless there is a fundamental change in policies of developed countries, practices of IFIs regarding agricultural strategy of developing countries and related WTO rules. In fact, according to a joint report by OECD and FAO it is predicted that during the next decade, the price of food items would rise further by 20 per cent for beef and pork, 30 per cent for sugar, 40 to 60 per cent for wheat, maize and skimmed milk, over 60 per cent for oilseeds and more than 80 per cent for vegetable oils.

To remedy the food crisis, the UN Secretary General suggested, during the Food Summit held in Rome in June 2008, to provide social safety net to the poor countries by “building the capacity of small farmers to increase food production”. While providing resources to poor farmers is necessary, their food production will not increase unless they are also provided with price incentive, agricultural support services and marketing board for signalling predictable price. The provision of such changes, however, requires changes in current agricultural policies and practices in both developing and developed countries. These changes are against the philosophy of neo-liberals, “Washington Consensus”, practices of IFIs and governments of developed countries in their bilateral trade agreements with developing countries. Without such changes, however, the agricultural sector of low-income countries will suffer further. The knocked-down agriculture, added to de-industrialization of these countries would result in their further dependence on food imports, foreign aid, stagnation and intensification of poverty. Consensus is developing in developing countries that “Washington Consensus” is a recipe for backwardness, economic and political dependence. Knocked-down agriculture, after de-industrialization, in low-income countries is another wake-up call for developing countries to grasp the consequence of following advice from neo-liberals and neo-liberal institutions. Resisting such policies is not easy, but necessary for long-term development of their country and well being of their population. They should also resist the EU’s EPA, as it stands, as well as pressure in the Doha Round for an “imbalanced” outcome. The choice is between further economic and political dependence and backwardness and sacrifices of short-term gains- if any-resulting from the Doha Round if current proposals of developing countries are accepted. A radical change in the trading system, practices of

IFIs and policies of developed countries is required. Developing countries have little power to bring about such changes, but they can try to change their own policies. It is not easy under current situation, but it is absolutely necessary.

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